


Standard 1: The student will describe the importance of earning an income and explain how to manage personal income using a budget.

Managing Your Income

Priority Academic Student Skills

Personal Financial Literacy

Objective 1.2: Identify the components of a personal/family budget (e.g., income, savings/investments, taxes, emergency fund, expenses, and charitable giving) based on short, medium, and long term goals (e.g., financial, personal, educational, and career). 



Lesson Objectives

- ⇒ Identify the components of a budget.
- ⇒ Evaluate the relationship between budgets and goals.

Personal Financial Literacy Vocabulary

Budget: A plan for managing money, dividing up expected income and expenses among spending and saving options based on personal goals during a given time period.

Expenses: The costs of goods and services, including those that are fixed (such as rent and auto loan payments) and those that are variable (such as food, clothing and entertainment).

Financial goal: Desired results from one's efforts to achieve personal economic satisfaction.

Mickey wants to get his own apartment as soon as he graduates from high school. Mom and Dad are not so sure. They know that money is tight at home, and they will not be able to help him financially. They cannot afford any more expenses.

Mickey is convinced he can make it on his own. He has a part-time job during the school year and can add more hours once he graduates.

His buddy Donald has already found a place to live, and his parents are okay with it. So, Mickey cannot understand why his parents are giving him a hard time about moving out.

What can Mickey do to prove to his parents that he can make it on his own?

Fixed expenses: Expenditures that are the same from week to week or month to month, such as mortgage or rent payments and car payments.

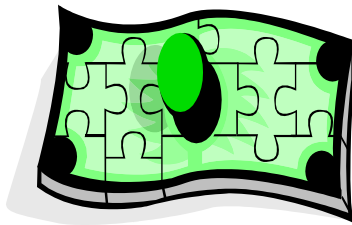
Fixed income: Income that stays the same from week to week or month to month. Usually refers to income from pensions or bonds.

Income: Money earned from investments and employment.

Variable expenses: Expenditures that change from week to week or month to month—for food, clothing, recreation and entertainment, for example.

Variable income: Income that varies from week to week or month to month.

Introduction



Most of us work hard for our money. However, few of us can really explain what happens to it each month. When the paycheck arrives, it seems like a lot of money—but by the end of the month, we are digging in our closet to find an old coat to see if there is extra change in the pocket! What happens?

The reality is this: it is not how much money we make; it is how much money we spend. If we do not learn how to control our spending, we will never have enough money to be happy or to pay our bills. Wealthy people who are careless with their spending will quickly become poor. On the other hand, moderate to low income people will become wealthy if they practice good money management skills.

TEACHING IDEA

The multimedia presentation for this lesson outlines the content in this section. You may want to use it with your students, or print off the slides to use as lecture notes.

Lesson

One of the most important tools we can use to control our spending and to build wealth is budgeting. While it may not sound like fun or may seem too restrictive, it will become our road map to accomplishing our goals.

But, what about the money needed to get there? That is an instant reality check!

Budgets provide the answer to that question. A **budget** is simply a monthly spending plan. Setting and following a budget puts us in control of our income and guides us toward our personal dreams. It is like following a roadmap when taking a trip.

A budget promotes smart spending habits. It helps us say “no” to the things that will detour our trip. It helps us focus on our destination and establishes the route we take to get there. In addition, a budget provides a safety net for emergencies or other bumps in the road. Those “bumps” include impulse spending, overspending, unexpected expenses and even bankruptcy. Monitoring what we spend is a lot easier than paying bills!

Building a budget is personal and should align with our goals. While there are some basics to follow, a budget is not a “one size fits all” plan. One of the best ways to start is by writing down everything you spend for one month. That means EVERYTHING. Tracking your spending is the only way to know where your money goes. It also helps you know if you are spending money in a way that will accomplish your goals.

TEACHING IDEA

If you have access to a spreadsheet program, you may want your students to use the Spending Plan Template in your teacher resource file.

If you have Internet access, you may want to choose one of the online budgets in the optional section of this lesson.



COMPLETE: Spending Log – Activity 1.4.1

Review student answers before continuing with this lesson.

Ask students the following questions:

- What patterns did you find in your spending habits?
- What influenced your spending habits?
- What might encourage you to change your spending or saving behavior?

Fixed and Variable Income

Income is the money that you receive from employment or other sources. When preparing a budget, you have to start by knowing how much you earn. Your earnings will limit the amount of spending you have each month in order to pay your bills and save for future goals. **Fixed income** is income that is set each month; **variable income** is income that can fluctuate each month.

For example, if you have a monthly salary of \$2,500, that income remains the same from month to month. However, if you are paid per hour, your income is based on the number of hours you work—so your income may vary from month to month. People earning commissions and those who are self-employed also tend to have variable income. When budgeting, you need to average your income for the past 12 months to determine a “typical” monthly income.

In some cases, you may have both fixed and variable income sources. Suppose you work for a set number of hours each month and are paid for those hours—but you also have the option to work additional hours for more pay, depending upon your schedule. Income from the “set” number of hours is fixed while income from the additional hours is variable.

*When preparing your budget, it is recommended to include deposits to your savings account as a **FIXED** expense.*

Fixed and Variable Expenses

Expenses are the costs you pay for the products you buy. Some expenses are fixed and others are variable.

Fixed expenses are those payments and expenses that same the same from month to month. Fixed expenses include things such as a lease or house payment, or a cell phone; you generally have a contract for a set amount for those costs. They do not vary from month to month and will not change until the terms of the contract change.

Variable expenses are those payments and expenses that tend to be different each month. Variable expenses include anything over which you have control on a monthly basis. For example, you can adjust your spending on utilities, gasoline, clothes, food, entertainment, and many other products you buy each month.

When making a monthly budget, fixed expenses are set—so enter them into your spending plan first. Then you can enter all other expenses and allocate whatever income is left to cover them.

Now that you have an understanding of the basic components of a budget, you can build a spending plan that will help you accomplish your goals.

**COMPLETE: Student Budget Form – Activity 1.4.2**

Review student answers before continuing with this lesson.

Ask what they learned from preparing their budgets.

Conclusion

A budget is one of the most important tools an individual or a family can have to help manage their financial resources. Without a budget, you are left guessing every month if you will have enough money to get by. Budgets should be flexible and change with your needs (*not your wants!*). Most successful money managers will review their budget at least once a year to ensure they are on target for reaching their personal and financial goals.

“Failing to plan is planning to fail!”

Unknown

If Mickey is really serious about moving out, he needs to make a budget to see if he can afford to do it. By making a budget, Mickey can show how much he earns and how much he can afford to spend.

Having a budget will also help Mickey show his parents he has a plan to be responsible with his money, reducing the potential of needing to ask them for help.

Name: _____ Class Period: _____

Managing Your Income

Review Lesson 1.4

Answer the following questions and give the completed lesson to your teacher to review.

1. Which of the following is a fixed expense?
 - a. Rent
 - b. Food
 - c. Entertainment
 - d. Clothing
2. Which of the following is a flexible expense?
 - a. Loan payment
 - b. Eating out
 - c. Garbage
 - d. Cable
3. Explain the purpose of having a budget.
4. Identify the steps you need to take to prepare a personal budget.

Name: _____ Class Period: _____

Daily/Weekly Spending Log – Activity 1.4.1

Keep a record of all of your spending for at least one week. But realize, a week may not be enough time to really find all of your money habits. You may want to copy this page and keep track for a longer period of time. Write down everything! You should also record how you were feeling at the time. Emotions account for a lot of spending and you may not even realize it. See the example below. After the week is up, look at your log. Do you see any patterns developing? What are some of the “triggers” that start you spending? Do you see spending habits that you want to change? Total the amount you have spent during this week. Are you spending more than you actually have?

Day	Time	Purchase	\$ Amount	How Am I Feeling?
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
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_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Name: _____ Class Period: _____

Student Budget Form – Activity 1.4.2

Use this form to complete your budget, based on the spending habits found on your tracking form.

Allowance/Income _____ weekly ____ monthly ____

FIXED EXPENSES	Weekly	Monthly
Lunches		
Transportation		
Contributions		
Savings		
Insurance		
Other:		
FLEXIBLE EXPENSES		
Hobbies		
Movies		
Entertainment		
Snacks		
Clothing		
Books/Magazines		
CDs/Tapes/Downloads		
Cell Phone		
Gifts		
Other:		
Other:		
TOTALS		

Optional Activities

- ⇒ **Jumpstart Reality Check**
http://www.jumpstart.org/madmoney/pgv_money_rc_form.html
- ⇒ **Monthly Budget Planner**
Charles Schwab Monthly Budget
http://www.schwabmoneywise.com/activities/Calculator_Budgeting_Tool.php
- ⇒ **About.com**
Financial Plan Online Budget
<http://financialplan.about.com/cs/budgeting/l/blbudget.htm>